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SUBJECT: ZHEJIANG PROVINCE'S WENZHOU: CHINA'S ENTREPRENEURIAL CENTER
RESPONDS TO CHANGING TIMES

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¶1. (U) Summary: During an April 23-24 visit to Wenzhou, Zhejiang Province, local officials and entrepreneurs said that many of Wenzhou's export-oriented enterprises are under pressure from increasing raw material prices, renminbi (RMB) appreciation and U.S. economic changes. In response, local enterprises are trying to upgrade product technology and quality, but this cannot be accomplished overnight. Some enterprises have reduced production capacity and some might be forced to close down altogether. During visits to two of Wenzhou's leading companies, both described how they successfully filed lawsuits against foreign companies to protect intellectual property. During the visit, the CG also visited a Catholic Church and addressed students at Wenzhou University on the U.S. Presidential election campaign. End Summary.

Wenzhou: Land of Entrepreneurs

¶2. (U) The coastal city of Wenzhou, in Zhejiang Province, is one of China's most dynamic and entrepreneurial cities. Everyone has a business and everyone seems to be working some angle. The people of Wenzhou are admired for their business acumen, but are also viewed by many in Shanghai and throughout the Yangtze River Delta as being responsible for driving up property prices in recent years. The Consul General, accompanied by the Cultural Affairs Officer and FSN economic analyst, visited Wenzhou April 23-24, 2008.

Meeting with Wenzhou Foreign Trade Office

¶3. (SBU) Explaining Wenzhou's intense entrepreneurial drive, Foreign Trade Commission Director Su Xiangqing said that people from Wenzhou have a long tradition of heading elsewhere, including overseas, to seek better opportunities. Wenzhou's natural conditions simply drove people away; nearly 90 percent of Wenzhou's administrative area was too mountainous or lacked water and thus was not suitable for residence, farming or construction. According to Su, about 600,000 Wenzhou natives are currently working overseas. Many Wenzhou natives are also scattered around China.

¶4. (SBU) Su said the United States is Wenzhou's second biggest trade partner. In 2007, Wenzhou exports to the United States

amounted to USD 962 million and imports from the U.S. equaled USD 323 million. U.S. investment in Wenzhou is limited, with no major U.S. investment in the city. Asked about the challenges Wenzhou's export enterprises currently face, Director Su said the biggest problem was overcoming their low-technology value. In addition, weakening foreign demand, including in the United States, RMB appreciation and rising labor costs are expected to adversely impact Wenzhou's export enterprises this year, Director Su continued. He predicted that exports to the United States will decrease a few percentage points. The Wenzhou government will help industries upgrade their technology to increase the value-added content of Wenzhou products. Su was confident that Wenzhou's export products will eventually be transformed from the current high-pollution, low-technology products to those with high-technology and high-quality characteristics.

15. (SBU) The CG underscored that this would require better protection of intellectual property rights. In that regard he asked about the status of a patent infringement case filed by 3M and now before the Wenzhou Intermediate Court. The defendants have already acknowledged the infringement and it is now up to the Court to decide on a fine. The CG urged fair, prompt and transparent action on the case and added that the financial penalties should be sufficiently large to have a deterrent impact. Later in the evening, at a dinner hosted by a Vice Mayor, Director Su said he had inquired with Wenzhou Intermediate Court officials and understood that the court was currently working with the plaintiffs and defendants to determine a fine amount.

Meeting with Wenzhou Party Secretary

SHANGHAI 00000174 002 OF 003

16. (SBU) During an April 23 meeting with Wenzhou Party Secretary Zhan Shaowei and Vice Mayor Chen Hongfeng, both gentlemen also attributed Wenzhou's entrepreneurial spirit to the city's limited usable land resources. There are now 159 Wenzhou Business Chambers across China and around the world. Wherever there are business opportunities, one finds people from Wenzhou, added Zhan. He gave high marks to Wenzhou entrepreneurs for their integrity. For example, Wenzhou banks' non-performing loan ratio is the lowest in China. Party Secretary Zhan admitted that weak external demand is having a strong negative impact on many of Wenzhou's small and medium-sized enterprises, along with the rising costs of labor and raw materials and the impact of RMB appreciation against the dollar. On the other hand, Zhan believes RMB appreciation and weak U.S. demand will force companies in Wenzhou to focus more on product quality, instead of cheap price alone. Wenzhou's first quarter 2008 inflation hit 6 percent, still below the 8 percent national average. Wenzhou Municipal Government provides subsidies to low-income families to help them to deal with this rising inflation. The city also works closely with local schools and industries to encourage technological innovation and regularly sends officials overseas, including to the United States, for training.

Visits to Local Enterprises: General Protecht and CHINT

17. (U) The CG visited the General Protecht company in Wenzhou's Yueqing city, called China's "capital of home appliances." General Protecht was founded in 2001 as an export-oriented company and specializes in GFCI (Ground-Fault Circuit Interrupter) products, LCDI (Leakage Current Detection Interruption) products, RCCB (Residual Current Circuit Breaker) products and switch products. General Protecht's annual sales exceed USD 30 million. All of its products are exported to the United States, Canada, South America and the European Union. The company's 800-plus staff members include 10 PhD degree holders as well as dozens of certified engineers. The company holds nearly two dozen Chinese and foreign patents. The company won acclaim in China in 2007 when a Federal District Court in

New Mexico ruled for defendant General Protecht in a patent infringement suit filed against the company by the U.S. company Leviton.

18. (U) General Protecht Chairman's son Sean Chen and Vice General Manager of the firm's International Property Department, Ye Xiangfa, outlined General Protecht's investment project in Atlanta. In May 2007, General Protecht signed an agreement with Lamar County, Georgia, to build a 253-acre industrial park. The total investment should reach USD 236 million. Phase one is scheduled for completion in August 2009 and phase two in December 2012. Most of the funding will come from General Protecht itself, or from bank loans. Chen cited three problems which the project has faced: 1) numerous governmental approvals; 2) foreign exchange constraints in China; and 3) financing issues as China tightens monetary policy. Chen said the U.S. economic slowdown has actually benefited General Protecht, as the land purchase price for the investment was less than originally forecast. Chen stressed the company's great attention to IPR protection issues, as IPR has been critical to the company's success to date. General Protecht plans to expand its business into higher profit margin areas to offset rising labor and input costs.

Meeting with CHINT, the Biggest Enterprise in Wenzhou

19. (U) The CG also visited CHINT, China's leading company in the low-voltage electrical and power transmission and distribution industries. CHINT's annual sales turnover exceeds USD 2 billion. Founded in July 1984 in Wenzhou, the company has expanded from a home workshop of seven workers to a major manufacturer of electrical products, with six specialized branches, more than 50 holding companies, over 800 specialized cooperative partners and 16,000 employees. CHINT is the biggest private enterprise in Wenzhou. Vice President Lin Kefu stressed that the company's innovation capability has been its key to

SHANGHAI 00000174 003 OF 003

success. Through the years, CHINT has filed 200 patents in China. Lin said CHINT will offset increasing labor costs and the impact of RMB appreciation by increasing production efficiency, lowering production costs and increasing product sales prices about 15 percent.

110. (U) CHINT is another Wenzhou company with recent IPR litigation experience. In August 2006, CHINT found that Schneider Electric was selling five products with CHINT technology but not with CHINT's permission. CHINT asserted that Schneider had made a RMB 330 million (almost USD 50 million) profit through these alleged IPR infringements. On September 29, 2007, Wenzhou Intermediate Court ruled against Schneider and as a result, Schneider had to pay CHINT a 330 million RMB fine. This IPR case set the record for the highest IPR infringement penalty fee in China to date. Lin emphasized to the CG that CHINT's legal action in this IPR case was the result of CHINT's strong IPR protection awareness.

Wenzhou Nanmen Catholic Church

111. (SBU) The CG also visited Wenzhou Nanmen Catholic Church and met with Father Ma Xianshi and members of the congregation. Wenzhou has a history of Catholic religious practices dating back over 100 years to the arrival of missionaries from France. Nowadays, the majority of Wenzhou's 165 Catholic churches are either newly built or have been renovated in the past 20 years. Most Catholic clergy in Wenzhou are trained in Shanghai; there are currently 30 priests serving Wenzhou. Father Ma said this was not enough. He attributed Wenzhou's large Catholic presence to deep historical roots and the strong influence of family religious practices on younger generations. Father Ma said the local government also provides strong support. The church gathers the majority of its funding from donations and currently has sufficient funds for its daily activities, he said.

¶12. (U) The CG also visited Wenzhou University and gave a presentation, in Chinese, to around 100 students on the U.S. Presidential Election. Following the presentation, students asked a variety of engaging questions on the election and U.S. foreign policy, including U.S. relations with Taiwan, Tibet, the Olympics and changes in China over the past 30 years. On April 25, Wenzhou's most popular paper, the "Wenzhou Urban Daily" (Party-owned daily, circ. 300,000) printed a full-color, front-page photo showing the CG's meeting with Chen Ailing, Director of the Wenzhou Municipal Foreign Affairs Office. On the same day, the paper also published an interview with the CG in an article entitled "U.S. Consul General Kenneth Jarrett Speaks on U.S. Visas."

Visa issue is the no.1 question

¶13. (U) Throughout the visit, the CG received questions about visas from all quarters. Although this happens on all trips, the frequency of the queries was remarkable. There were the usual questions about waiting times for an interview and the negative impact this has on business. There were also the usual misperceptions about the refusal rate. In addition, many expressed an absolute conviction that the Consulate harbors a prejudice against applicants from Zhejiang province, and Wenzhou in particular. The CG did his best to debunk such notions.

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